

No. 6852.

IN THE
United States
Circuit Court of Appeals,
FOR THE NINTH CIRCUIT.

Cinema Patents Company, Inc., a corporation,

Appellant,

vs.

Columbia Pictures Corporation, a corporation, and William Horsley Film Laboratories, Inc., a corporation,

Appellees.

PETITION FOR REHEARING.

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FILED

JAN 17 1933

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PETITION FOR REHEARING.

To the Honorable Judges of the United States Circuit Court of Appeals for the Ninth Circuit:

The defendants, appellees, Columbia Pictures Corporation, and William Horsley Film Laboratories, Inc., believing themselves aggrieved by this court's decision filed December 19th, 1932, come now and respectfully petition this court for a rehearing on the following grounds:

POINT I.

The Court Erred in Holding That the License Agreement Covered "Machines Capable of Developing Only Positive Films." (Opinion page 4.)

The uncontradicted testimony of Mr. Horsley [Rec. p. 94] and Mr. Seid [Rec. p. 98] shows that negative film can be developed in the machine without the additional tank, and that the operation of the machine is the same. Consequently, the original machine was capable of developing negative film.

The same remarks apply to the holding of the court on page 2 of its opinion that the "machines at the time of the execution of the lease were equipped with tanks suited only to the development of positive film."

There is no evidence in the case to support the holding of this court on page 2 of its opinion that the machines had been "designed, built and installed in the Wm. Horsley Laboratories for developing only positive film."

Mr. Horsley testified on direct examination by plaintiff's counsel [Rec. p. 88] as follows:

"Q. When those machines were originally acquired and installed in the laboratory what size film were they adapted and intended to develop? A. Intended to develop any kind of film that I chose to put on them."

The fact that the machines were originally run with only positive film does not affect the interpretation of the license agreement, but, if held otherwise, the court should take into consideration the fact that upon one of the machines *without the additional tank* thousands of feet of *negative sound track film* were run at the rate of from

six to ten thousand feet per night under a different treatment than given positive film, and that the machine now complained of was changed prior to the addition of the extra tank to accommodate 16 mm as well as 35 mm film.

In its opinion this court said:

“It is clear from these provisions of the lease that the only right granted to the defendants is the right to use the machine which the plaintiff had designed, built and installed in the Wm. Horsley Laboratories for developing only positive films.”

This statement by the court is clearly erroneous and is violative of every rule for the construction of contracts with which we are familiar. It is undoubtedly the law that courts cannot make contracts for parties, nor can they add to or take from the solemn agreement of the parties as expressed in the writing.

In the case of *Union Iron Works v. Outer Harbor Dock & Wharf Co.*, 168 Cal. 81, the court said:

“These sections of the code simply enact the common law rule, and it is not within their contemplation that a contract reduced to writing and executed by the parties shall have anything added to it or taken away from it by such evidence of ‘surrounding circumstances.’ The rules of evidence embodied in such sections is invoked and employed only in cases where upon the face of the contract itself there is doubt, and the evidence is used to dispel that doubt, not by showing that the parties meant something other than what they said, but by showing what they meant by what they said.

“Where the parties have reduced to writing what appears to be a complete and certain agreement embodying a legal obligation, it will, in the absence of

fraud, accident or mistake, be conclusively presumed that the writing contains the whole of the agreement between the parties, and parol evidence of prior, contemporaneous or subsequent conversations, representations, or statements will not be received for the purpose of adding to or varying the written instrument.”

In *Cannon v. Selmsler*, 85 Cal. App. 783, the court said:

“Parties are bound by their written contract. . . . Courts have no power to make contracts between the parties, or to say what the parties intended by the contract, where its provisions are definite and certain.”

The parties who executed the agreement involved in the case at bar were all well versed in the art of motion pictures. It is plain that they knew the difference between “negative” and “positive” photographic film, and if there had been any agreement between the parties that the machines here involved were to be used only for the purpose of processing positive photographic film, it is reasonable to suppose that they would have employed language designed for that purpose. This they did not do. There is absolutely no uncertainty or ambiguity in the use of the term “photographic film”, and this court cannot now say that the parties agreed to use the machines only for the processing of positive photographic films, as such a construction does violence to the plain words of the contract itself and amounts to the making of a new contract for the parties by the court.

One of the two machines installed by plaintiff’s predecessors has in no way been altered or changed. If a new development solution were to be now perfected so that

negative photographic film could be speedily and efficiently developed in that machine, could this court possibly hold that the defendant does not have the right to use that machine for developing negative film? The contract itself is clear, unambiguous and certain and says in certain and definite language that "photographic film," without limitation or restriction, may be processed in these machines.

We respectfully submit that the holding of the court to the contrary is plainly erroneous and is violative of all rules for the construction of contracts.

POINT II.

The Court Erred in Holding That the Present Practice of the Present Owner (Plaintiff) of the License, of Making Separate Machines for Developing Negative Film, at a Higher Rate of Royalty, Is Determinative of Any Rights of the Parties Under the License Agreement. (Opinion page 5.)

There is nothing in the nature of a license in writing to place it outside the well known rules of construction which are applicable to other contracts in writing. The Circuit Court of Appeals for the Eighth Circuit in the case of *Westinghouse Electric & Mfg. Co. v. Tri-City Radio Electric Supply Co.*, 23 Fed. 2nd 628, at page 630, states the law clearly on the point under discussion in the following language:

"Licensees contend that a course of dealing pursued by them with the knowledge and consent of the licensor should be accepted by the court as a practical construction of the license by the parties themselves. But the only place the conduct of the parties

can have in construing a contract is as one of the recognized rules or means of construction where the contract is, within its four corners, ambiguous in some respect. Where the contract itself is clear and complete there is no room for any extraneous rules of construction. The court must take the words as it finds them and give them their usual meaning. It cannot alter nor shade such meaning and thus declare that the parties meant other than they plainly stated.”

The fact that the *present* licensor is making separate machines and charging a higher royalty for use of such machines, can have no bearing in placing a construction on the license agreement for determining whether the acts of defendants are outside the license. There is no evidence in the case to show that the original licensors followed such practice or that they built separate machines for processing negative film. What the present licensor is now doing with the patents has absolutely no bearing upon the rights of the parties to the contract and was improperly considered by the court.

POINT III.

The Court Erred in Holding That the Act of Defendant in Building an Additional Developing Tank and Adding Such Tank to the Machine Amounted to an Invasion of the Licensor's Right to Manufacture. (Opinion page 3.)

The right to “manufacture” retained by the licensor is *the right to manufacture the patented machine*. Defendants did not build a new machine and thereby invade the patent monopoly; they built but one unit of the machine and no evidence has been introduced in this case to show

that the manufacture of a single unit infringes any patent in suit.

We believe that the court, in arriving at its conclusion that defendants' acts have amounted to "manufacture," has been misled into applying the law of the cases appearing on page 4 of the court's opinion to the facts in this case to which, we respectfully submit, such law does not apply as the rights of the parties herein are to be found within the four corners of the license agreement only. Only one of the cases cited by this court in its opinion on page 4 involves rights acquired by the defendant under a license agreement.

Referring first to the opinion of the Eighth Circuit Court of Appeals in the case of *St. Louis Street F. M. Co. v. Sanitary Street F. M. Co.*, quoted in this court's opinion, in the case referred to, *the licensee specifically violated a prohibitive condition of the license.*

The subject matter involved was "9 London wagons" which were delivered "upon condition that they were not to be used within the United States." This was an oral license which does not detract from its binding character, but, in that case, was supported by a written receipt stating, "I also agree that these machines will not be used within the limits of the United States."

It was with particular reference to this direct violation of a covenant that the court expressed itself in the words quoted by this court from that opinion, and attention is called to that portion of the quotation which states "that if the licensee makes any other or different use, either as to time or place, than that authorized by the license, he becomes an infringer, and his limited license is no justifi-

cation," the court having found that the defendants used these "9 London wagons" in the United States in violation of the specific prohibition of the license.

The two following cases cited by this court in its opinion are cases involving rights acquired by a purchaser of a patented article and do not involve the interpretation of a license agreement.

Take first the *Miller Hatcheries v. Buckeye Incubator Co.* case, 41 Fed. 2, 619, cited by this court. In the incubator case, the court found "reconstruction," that is, a *rebuilding of the original machine*. This appears in the opinion of the court, beginning in the last paragraph on page 620, and reading as follows:

"Defendants took the incubators which they had bought from plaintiff Buckeye Company and rearranged the interior, inserting twelve trays in the space where nine had been in the incubators as purchased. This involved numerous alterations, among them, recessing at the under sides the horizontal webs or plates of the end slats of the tilting sections; detaching the side member bars from the tray supporting rails; drilling holes in the side member bars for use in connection with the additional tray rails; making or purchasing additional tray rails; making or purchasing additional trays; attaching the side member bars to the old and new tray rails; enlarging the ventilators."

From this, it will be seen that *not only were the original machines largely dismantled, but the corresponding parts of the same were changed and new parts added.*

This class of cases comes under that portion of the law relating to the *sale* of patented articles, where the patentee

has parted with title to the patented article, and the question to be determined is what are the implied rights of the *purchaser* acquired by virtue of his purchase? These rights are the rights to repair the machine but not to reconstruct it.

But even in this class of cases, the Circuit Court of Appeals in the Incubator case has stated the rule which, if applied to this case, would clear the licensee here of any charge of infringement. This statement of the rule is found on page 621, and reads as follows:

“The purchaser of a patented device has the right to repair the device by replacing unpatented worn-out parts; *he may also, within certain limits, change the device so as to make it adapted to his particular use.* Thomson-Houston Electric Co. v. Kelsey etc. Co. (C. C. A.), 75 F. 1005, 1010; Aiken v. Manchester etc. Works, Fed. Cas. No. 113; Wilson v. Simpson, 9 How. 109, 125, 13 L. Ed. 66.” (Italics ours.)

The attention of the court is called to the italicized part of the above quotation. This is exactly what has been done in the instant case before the court. There has been *no reconstruction of the original machine* as it still retains its original identity, but there has simply been an addition to it which makes it “adapted to his particular use.” *In other words, reconstruction goes to the structure of the original machine; in the present case the structure of the original machine, as installed, remains the same.*

In the Incubator case, the court further said, on page 622:

“The incubators were new. Nor were the changes made in order to make the incubator adaptable for

special use of the defendants. No such special use existed.”

The essence of the opinion, in so far as this case of reconstruction was concerned, is also found on page 620, where the court states:

“The reconstruction was, in our opinion, such as to destroy the identity of the incubators as they were received from the hands of the original vendor.”

Referring to another case cited by this court in its opinion, the case of *George Close v. Ideal Wrapping Machine Co.*, 29 Fed. 2, 533, the question involved caramel wrapping machines. The court stated:

“The plaintiff, patent owner, manufactured each machine to cut and wrap caramels of one size only—stated on the name-plate of the machine, together with references to the patents.” (Page 534.)

Defendant *purchased* machines which cut a certain size caramel and employed a machinist to change its machines so as to cut and wrap larger caramels.

In this case, as in the Incubator case, the reconstruction involved a change *in the essential parts of the machines*. This is better pointed out in the opinion on page 534, as follows:

“This reconstruction involved the substitution of a cutting wheel, with 18 knives instead of 24; and, as noted above, the step-by-step mechanism, the pockets in the wrapping device, and other essential parts of the machine, had either to be built over, or new and different parts substituted for the parts in the machines when purchased. The question is whether

such reconstruction was infringement. We agree with the conclusion of the court below that it was.”

And again, we have the rule stated in this case by the Circuit Court of Appeals for the First Circuit as follows: “It is not, and cannot be, contended that such reconstructions do not destroy the identity of the machine purchased.” The court further says:

“The defendant has made, and is using, the invention, *in a machine in substantial part made by it*—not purchased from the owner of the patents.” (Italics ours.)

The facts of that case also demonstrate that in the instant case before this court, the rule of law enunciated in such case with reference to machines *sold*, not licensed, does not apply, as there has been no loss of identity in the original machine, it remains the same in construction throughout as when originally acquired.

With reference to the last case cited and quoted by this court, in its opinion on page 4, that is, the case of *Leeds & Catlin Co. v. Victor Talking Machine Co.*, the quotation refers to the implied rights of a *purchaser* of a patented machine and not to rights acquired under a license agreement.

That case had for consideration the question of whether or not the manufacture and sale by unauthorized persons of disc sound records for use on patented sound reproducing or talking machines was an infringement. The patent covered, as an element of the combination, the disc record; in fact, the court stated that

“if a comparison may be made between the importance of the elements, as high a degree (if not a

higher degree) must be awarded to the disc with its lateral undulations as to the stylus. It is the disc that serves to distinguish the invention,—to make the advance upon the prior art.”

In other words, what the defendant was doing, and what the plaintiff complained of, was the unauthorized manufacture and sale of the *principal element* of the combination to owners of talking machines. The court stated that this was not repair, as disc records had a long life and were really furnished more frequently in order to increase the repertory of tunes than as substituted for worn out records.

In the case before this court, the lower court found that “The licensee did not reconstruct any of the principal parts of the machine nor alter its method of operation.” [Record, p. 132.]

We offer that none of these cases are pertinent to the case at bar, and we repeat our statement made on the oral presentation of this case to the court that we have been unable to find a case in which the facts were coincident with those of the instant case, but, if any of the law of these cases is applicable, it is that portion of the Miller Hatcheries case, quoted above, where the court states: “He may also, within certain limits, change the device so as to make it adapted to his particular use.” That is what has been done in the present case, the original machine has not lost its identical structure, consequently, it has not been reconstructed.

This is in line with the Supreme Court case of *Chaffee v. Boston Belting Co.*, 63 U. S. 217, which states:

“By a valid sale and purchase, the patented machine becomes the private, individual property of the purchaser, and is no longer protected by the laws of the United States, but by the laws of the state in which it is situated. Hence it is obvious that if a person legally acquires a title to that which is the subject of letters patent, he may continue to use it until it is worn out, or he may repair it or improve upon it as he pleases, in the same manner as if dealing with property of any other kind.”

To find that the defendants have invaded the patent owner's exclusive right to manufacture, some act outside the license, and in itself an infringement of the patents, must be proven. Plaintiff has not charged that the manufacture alone of the additional unit is an infringing act. The original machine remains the same as to structure and mode of operation, and, consequently, the addition of the developing unit to the old machine is not a “manufacture” of the patented thing under the law of the cases cited by this court.

The finding of the court, that the defendants have “manufactured,” cannot be sustained on a charge that such act violates the license, because there is nothing in the license prohibiting the manufacture of a separate tank, nor can it be said that to build a separate tank is an infringing act aside from the license because there is no charge by plaintiff that such an act is an infringement.

POINT IV.

The Court Erred in Holding That the Addition of a Development Tank “Brought to the Machine as a Whole a New Function.” (Opinion page 3.)

The Supreme Court in the case of *Risden etc. Locomotive Works v. Medart*, 158 U. S. 68, throws light on the meaning of the word “function” in the following statement:

“It is equally clear, however, that a valid patent cannot be obtained for a process which involves nothing more than *the operation of a piece of mechanism*, or, in other words, *for the function of a machine.*” (Italics ours.)

It is in view of the above finding of this court that it concluded that, “This act amounted to a ‘manufacture.’” *The only thing accomplished by adding the tank to the machine was to permit negative film to be developed on the machine in a shorter time than it could be developed without the additional tank.*

This is not giving a new function to the machine as the testimony shows the following. Mr. Horsley testified [Rec. p. 91]:

“*The method employed for developing negative film is the same as that employed for developing positive film, except for the longer period of time required for developing the negative. So far as the operation of the machines is concerned they are identical.*” (Italics ours.)

On recross-examination [Rec. p. 94], Mr. Horsley testified that the machine, without the additional tank, “can

develop negative film.” Mr. Seid, on examination by plaintiffs’ counsel, explains how negative film could be run on the machine without the additional developing tank, at page 99 of the record as follows:

“Assuming we attempted to develop picture negative in that positive machine, for one thing, we would have to concentrate our solution, known as the developing solution. We would have to have a stronger developing solution. We would increase the hardening qualities of the hypo and slow down the actual running of the machine. The machine has a speed change on it. We have run the machine as slow as 10½ minutes and we have run it as fast as 2 minutes.”

The court’s attention is called to the fact that the *original machine had a “speed change” so that the running speed of the machine could be changed to meet requirements of the film being treated.*

With reference to using the machine without the additional tank for developing negative film, Mr. Seid testified [Rec. p. 98] as follows:

“Basing my answer on my experiences in development of motion picture film, I would say that that machine on the left-hand side of the photograph could be used for developing negative picture film without any change in the construction of it as it stands now.”

The only reason the additional tank was used as told by Mr. Seid [Rec. p. 100] was—

“So we could retain a better rate of speed.”

The *function* of the machine as constructed was, by virtue of its film supporting rollers and drive mechanism,

to move film through the tanks. This function is the same with or without the additional tank; the mode of operation is the same and the result, that is, a processed film, is the same.

The kind of film processed does not change the function of the machine, nor does the varying of the speed of travel of the film through the machine change the function of the machine. Consequently, using the additional tank on the machine does not bring to the machine as a whole or in part a new function.

CONCLUSION.

It is our contention:

- (a) That the rights of the parties herein are to be determined from the license agreement itself.
- (b) That such agreement is not ambiguous as to its terms or meaning.
- (c) That the present practice of the present licensor in making separate negative machines and charging higher royalty rate therefor has no bearing on determining the rights of the parties under the license.
- (d) That the law of implied license attaching to purchased machines does not apply.
- (e) That defendants have not "manufactured" the machine covered by the licensed patents.
- (f) That no clause of the license agreement has been violated nor any right of the licensor invaded.

For these reasons, and because we believe the court has been led into error on these points in its decision, we respectfully urge the court to grant a rehearing so that further consideration may be given to these matters.

Respectfully submitted,

COLUMBIA PICTURES CORPORATION,
WILLIAM HORSLEY FILM LABOR-
ATORIES, INC.,

Appellees-Petitioners.

By LOYD WRIGHT,

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Attorneys for Appellees-Petitioners.

I hereby certify that I have examined the foregoing petition, and in my opinion it is well founded; that the case is one in which the prayer of the petitioner should be granted by this court; and that the petition is filed in good faith and not for the purpose of delay.

FRANK L. A. GRAHAM,

Of Counsel for Plaintiff-Appellee.

